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ABSTRACT

This learning activity package (LAP) on starting a small business is designed for student self-study. It will help students learn about their aptitudes and abilities as well as about the basics of running a small business. Following a list of learning objectives, the LAP contains a pretest (answer key provided at the end of the LAP). Ten learning activities follow, covering the following topics: terms used in a business of your own; the advantages and disadvantages of establishing your own business; what type of business is best for you; basic business types; buying an established business; estimating costs and financing the small business; location and layout of the physical facilities; advertising your business; operating your business; and licensing, taxation, and insurance. Each learning activity includes an objective, information sheets, and a self-test with answers. A posttest with answer key completes the LAP. (KC)

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OWNING AND OPERATING A SMALL BUSINESS



A Guide for Industrial Cooperative Training Programs

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LEARNING ACTIVITY PACKAGE NO. 14

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OWNING AND OPERATING A SMALL BUSINESS

Learning Activity Package



For use with
Industrial Cooperative Training Programs

Virginia Polytechnic Institute and State University
Division of Vocational and Technical Education
Blacksburg, Virginia 24061

This Learning Activity Package has been prepared for distribution to teacher-coordinators of Industrial Cooperative Training who may choose to duplicate the materials for students.

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INTRODUCTION

Some day you may consider the possibility of going into business for yourself. As vocational education students, you have an opportunity to develop the kinds of skills which will help you in starting your own personal business. You should consider the advantages of being your own boss, being independent, and making your own decisions. Also, you may have the desire to try something new or perhaps seek out a way to increase your earnings.

There are approximately 900,000 small businesses in the United States today. Each day approximately 1,000 new businesses are started, 1,000 are bought and sold, and 900 are closed. These figures indicate that a high percentage of new businesses fail each year.

If you are to succeed in your own business it will be wise to gain as much information as possible. Consider questions such as, "What is it like to own a business?" "Is this what I really want to do?" "How will I get started?"

This learning activity package will help you to learn about your own aptitudes and abilities. Also you will learn the basics of starting a new business. Upon completion of this LAP you will have gained some understanding of the realities of owning your own business. Hopefully, you will be able to determine if going into business is really for you.

NOTES TO STUDENTS

First examine the Learning Activity Package (LAP) "Owning and Operating a Small Business." Ask your instructor for a pretest. If your score is less than 90%, you will benefit by doing this LAP. Upon finishing each activity, proceed to the next one until you finish the entire LAP. When completed, secure a posttest from your instructor. Your instructor will inform you when you have met all the requirements for completion of the LAP

OBJECTIVES

When you have completed this LAP, you will be able to demonstrate your understanding of small business operation by completing these objectives with 90% accuracy.

- A. You will be able to demonstrate your knowledge of business ownership by explaining the meanings of thirty terms.
- B. You will be able to appraise your own personal traits by listing five questions which you should ask yourself before going into business.
- C. You will be able to (1) list five advantages and disadvantages of business ownership, and (2) list your interests and qualifications regarding personal business ownership.
- D. You will be able to list three advantages and disadvantages of the sole proprietorship, partnership, corporation, and franchise.
- E. You will be able to list five advantages and disadvantages of buying an established business.
- F. You will be able to (1) plan the fixed and working capital needed for your business, (2) recognize five sources of capital, and (3) recognize three types of financial institutions.

- G. You will be able to (1) list three types of business locations by general area, (2) explain the factors involved in choosing a business location, and (3) sketch the layout of a business.
- H. You will be able to (1) identify seven types of advertising media which might be used in your business, and (2) design six types of business media.
- I. You will develop a plan to provide seven management functions of your business including buying, pricing, selling, selection of employees, training, providing customer credit, and keeping records.
- J. You will be able to list seven agencies which provide services in the areas of licensing, taxation and insurance.

PRETEST

Define in your own words the following terms related to going into a business of your own.

1. Bankruptcy _____

2. Initiative _____

3. Franchise _____

4. Profit _____

5. Independent _____

6. Corporation _____

7. Competition _____

8. Partnership _____

9. Union _____

10. Trade association _____

Pretest (Continued)

List at least 5 questions which persons who are going into business for themselves should consider regarding their personality.

11. _____
12. _____
13. _____
14. _____
15. _____

List 5 advantages and disadvantages of going into business for yourself.

Advantages

16. _____
17. _____
18. _____
19. _____
20. _____

Disadvantages

21. _____
22. _____
23. _____
24. _____
25. _____

Pretest (Continued)

List 5 advantages and 4 disadvantages of the sole proprietorship.

Advantages

- 26. _____
- 27. _____
- 28. _____
- 29. _____
- 30. _____

Disadvantages

- 31. _____
- 32. _____
- 33. _____
- 34. _____

List 5 advantages and disadvantages of the partnership.

Advantages

- 35. _____
- 36. _____
- 37. _____
- 38. _____
- 39. _____

Disadvantages

- 40. _____
- 41. _____
- 42. _____
- 43. _____
- 44. _____

Pretest (Continued)

List three (3) advantages and disadvantages of buying an established business.

Advantages

45. _____
46. _____
47. _____

Disadvantages

48. _____
49. _____
50. _____

Organize the following expenses into two groups--fixed capital expenses and working capital expenses. Place an F on the blanks at the left if the expense is a fixed expense and place a W in the blank if it is a working capital expense.

- ___ 51. Salary of owner manager
___ 52. Licenses and permits
___ 53. Advertising and promotion for opening
___ 54. Salary and wages of employees
___ 55. Rent
___ 56. Fixtures and equipment
___ 57. Counters
___ 58. Outside sign
___ 59. Insurance
___ 60. Window display fixtures
___ 61. Special lighting

Pretest (Continued)

- ___ 62. Utilities
- ___ 63. Telephone
- ___ 64. Maintenance
- ___ 65. Safe
- ___ 66. Storage shelves
- ___ 67. Delivery equipment
- ___ 68. Cash register
- ___ 69. Taxes
- ___ 70. Advertising

List 5 sources of acquiring capital for your business.

- 71. _____
- 72. _____
- 73. _____
- 74. _____
- 75. _____

Make a list of 7 factors which should be considered when choosing a location for a business.

- 76. _____
- 77. _____
- 78. _____
- 79. _____
- 80. _____
- 81. _____
- 82. _____

Pretest (Continued)

List ten types of media which could be used in advertising and promoting your own business.

- 83. _____
- 84. _____
- 85. _____
- 86. _____
- 87. _____
- 88. _____
- 89. _____
- 90. _____
- 91. _____
- 92. _____

Name 5 functions of management. Then describe what the manager must actually do for each function.

- 93. _____

- 94. _____

- 95. _____

- 96. _____

- 97. _____

Pretest (Continued)

98. What is the difference between intrastate and interstate commerce?

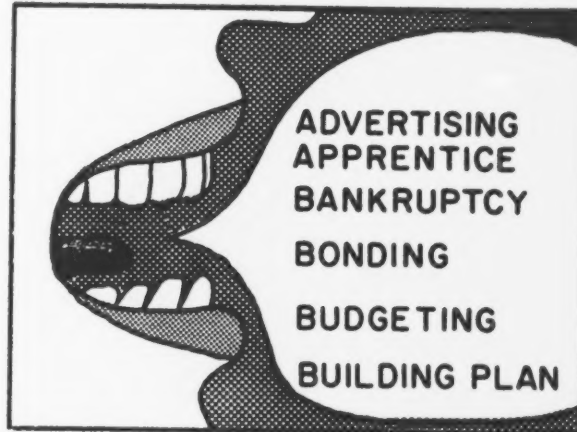
99. What types of taxes will you be expected to pay? _____

100. What kinds of insurance will you require for your business? _____

LEARNING ACTIVITY A
TERMS USED IN A BUSINESS OF YOUR OWN

Objective: You will be able to demonstrate your knowledge of business ownership by explaining the meanings of thirty business terms.

Before you proceed through the learning activity in this LAP, it is necessary to understand the meanings of important business terms. You should know these terms so well that they become a regular part of your vocabulary.



Study the definitions of the following terms related to starting a business of your own.

ADVERTISING--The use of various media to inform the public of a particular business, product or service.

APPRENTICE--A person who is learning an occupation through on-the-job experience in a supervised apprenticeship program.

BANKRUPTCY--The state of being unable to pay debts as defined under the federal bankruptcy law.

BONDING--Insuring a person or company against a preset amount of business loss.

BUDGET--An estimated financial plan which is an aid in keeping expenses in line with income.

BUILDING PERMIT--A document granted by a county or municipality for building or remodelling a structure.

Terms Used in a Business of Your Own (Continued)

BUSINESS LICENSE--A document which indicates legalized approval of a business by a local or state government.

CAPITAL--The money, buildings, machines and tools used to manufacture goods and provide service.

COMPETITION--A continuing struggle among business firms to gain a larger share of a market or to obtain other business advantages.

CONSUMER--One who uses goods or services.

CORPORATION--Method of organizing resources when a business is owned by stockholders.

ESTIMATE--A judgment of the net value of goods or services.

ENTREPRENEUR--An individual who initiates and operates business.

FRANCHISE--An agreement with a company or manufacturer which provides the right to market a product, or provide a service.

FRINGE BENEFITS--Supplementary benefits in addition to wages.

INCENTIVE--Factors which encourage workers or owners to sell or produce more goods and/or services.

INDEPENDENT--Free from the influence or control of others.

INITIATIVE--To take the lead; to start something new.

LABOR UNION--A group of employees who organize together to protect their common interests.

OVERHEAD--The on-going costs involved in running a business, such as maintenance, utilities and taxes.

PARTNERSHIP--A form of business organization involving the association of two or more persons.

PERSISTENCE--On-going effort or determination.

PROFIT--The monetary gain from producing goods or services.

Terms Used in a Business of Your Own (Continued)

RECORD KEEPING--Maintaining the financial records of a business.

REGULATION--Local, state or federal governmental control over specific business and economic activities.

SERVICE--Assistance which is provided to a small business by private or governmental agencies.

SOLE PROPRIETORSHIP--A form of business organization in which a business is owned by one person.

TRADE ASSOCIATION--An organization formed by businesspersons to advance a particular trade or industry.

UTILITIES COST--The electrical, water, heat and air conditioning costs for operating a business.

ZONING LAWS--State or local regulations which control building and/or land use.

Describe in your own words the following terms related to starting your own business.

1. Advertising _____
2. Apprentice _____
3. Bankruptcy _____
4. Bonding _____
5. Budget _____
6. Building permit _____
7. Business license _____
8. Capital _____
9. Competition _____
10. Consumer _____
11. Corporation _____

Terms Used in a Business of Your Own (Continued)

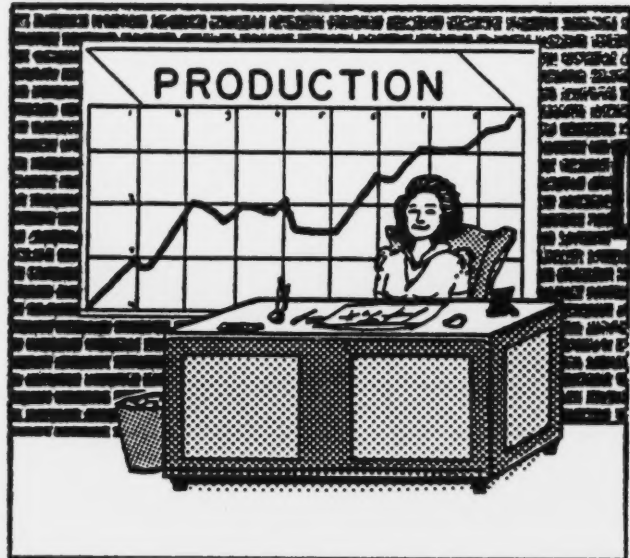
12. Estimate _____
13. Entrepreneur _____
14. Franchise _____
15. Fringe benefits _____
16. Incentive _____
17. Independent _____
18. Initiative _____
19. Labor Union _____
20. Overhead _____
21. Partnership _____
22. Persistence _____
23. Profit _____
24. Record Keeping _____
25. Regulation _____
26. Service _____
27. Sole Proprietorship _____
28. Trade Association _____
29. Utilities Cost _____
30. Zoning Laws _____

LEARNING ACTIVITY B

CAN YOU BE SUCCESSFUL IN OPERATING A BUSINESS OF YOUR OWN?

Objective: You will be able to appraise your own personal traits by listing five questions which you should ask yourself before going into business.

It is necessary to recognize that there are advantages and disadvantages in establishing your own business. You should ask yourself certain questions to determine if you are the type of person who will succeed in starting and managing a business of your own. Remember-- in starting your own business you will be risking both your money and your time.



The rating scale which follows is meant to call attention to your personal traits. Proceed to complete the rating scale and summary.

Can You Be Successful in Operating a Business of Your Own? (Continued)

RATING SCALE

Personal Traits Which are Important to a Business Owner

1. Do you have initiative?
 - A. I am a self-starter.
 - B. If someone puts me on the right track, I can keep on going.
 - C. I don't start my work until I must.
2. What is your attitude towards people?
 - A. I have no problems in getting along with others.
 - B. I have friends. Who needs more?
 - C. People irritate me.
3. Are you a leader?
 - A. People follow me on the job.
 - B. If I am given orders, I can also give them to others.
 - C. I usually follow after someone else starts something.
4. Are you responsible?
 - A. I always follow things through, once I get started.
 - B. I will manage if I must but I don't like the responsibility.
 - C. I allow the eager employees to do the job.
5. Are you a good organizer?
 - A. I have a plan before I start and others rely on me to get the ball rolling.
 - B. If something goes wrong with the plan, I'd rather quit than go on.
 - C. I work with whatever plan is already available.

Can You Be Successful in Operating a Business of Your Own? (Continued)

6. Are you a good worker?
 - A. I work hard for something I really want.
 - B. I work hard until I've had enough.
 - C. Hard work doesn't really pay off.
7. Are you a good decision maker?
 - A. The decisions I make are good.
 - B. I often change my mind after a time.
 - C. I let others decide, because I'd rather not make the wrong choices.
8. Can people trust you?
 - A. My word is always good.
 - B. I am basically honest but when necessary I tactfully alter the truth to fit the situation.
 - C. Who cares if others don't know any different?
9. Do you have perserverance?
 - A. I am very determined, once I get started.
 - B. If the job doesn't get fouled up, I will try to finish it.
 - C. If it doesn't work out the first time, why try harder?
10. Are you in good health?
 - A. I have a lot of energy all the time.
 - B. I have a normal amount of energy.
 - C. I seem to "run down" quicker than my co-workers and friends.

Results of Rating:

Score three points for each A which you checked _____

Score two points for each B that you checked _____

Score one point for each C that you checked _____

Your total score _____

Can you Be Successful in Operating a Business of Your Own? (Continued)

If your score is 21 to 30, you probably have the necessary traits to start your own business and make a success of it. If you score from 11 to 20 points, you are likely to have some problems which you can't handle by yourself. It would be best to find a partner who is strong on the points in which you are weak. If your score is from 1 to 10, it is probably in your best interest to find a job where you will be working for someone else.

In your own words, write five questions which you should ask yourself before planning to go into a business of your own.

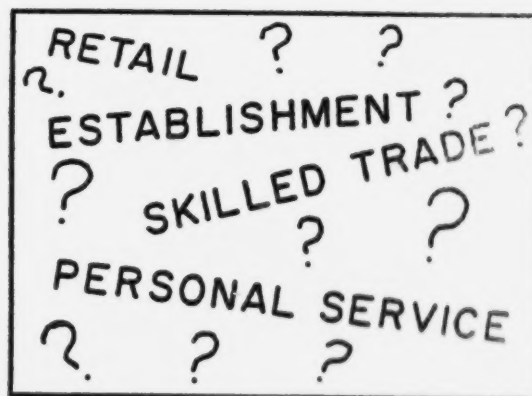
1. _____
2. _____
3. _____
4. _____
5. _____

LEARNING ACTIVITY C

WHAT KIND OF SMALL BUSINESS IS FOR YOU?

Objective: You will be able to (1) list five advantages and disadvantages of business ownership, and (2) list your interests and qualifications regarding personal business ownership.

In order for your business to be successful, it will be necessary to know something about other people who go into business for themselves. You will also need to understand where your interests lie



and the kinds of qualifications you already possess. With this information in hand, you will be able to make a wiser decision which will aid you on the road to success.

Who Goes Into a Small Business?

People who succeed in small business are those who:

have a strong desire to be their own boss.

want to make their own decisions.

are willing to work long and hard to get their own business started.

have drive, persistence, initiative and good health.

can communicate well with others.

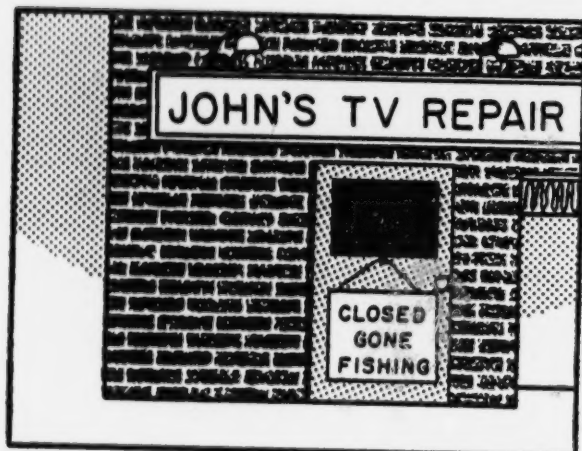
are creative in finding ways to build up the business.

have a good knowledge of the service or product.

can think critically in meeting situations and solving problems.

What Kind of Small Business is For You? (Continued)

If you have most of the traits mentioned or a desire to attain them, you may be the type of person who can succeed at a business of your own.



If you are the kind of person who values the freedom to make your own decisions and determine your own income, perhaps you should consider owning your own business. However, if job security, regular work hours and fringe benefits are more your style, then perhaps you should leave the problems of business ownership to someone else. People who

own their own business forego this type of security for the appeal of freedom. They can set their own work hours (often very long), choose their own employees, take care of their own insurance and fringe benefits, and decide on their own income. They may also choose the location of their work as well as the type of work which they will do.

Along with this freedom comes a great deal of responsibility, not only to yourself but also to your employees and customers. Starting a business is a slow process; it usually takes at least five years to become well established. At first it may be necessary to work long hours for a modest income.

Business owners must be aware of the wants and needs of their customers. They must also be good planners in terms of both time and financial budgeting. It is necessary to be respected by the public in order to promote your product or service.

What Kind of Small Business is For You? (Continued)

What Are the Pros and Cons?

Have you decided whether or not you should start your own business--or will you be better off working for someone else? The following exercise will help you in making a decision.

List below the advantages and disadvantages of owning your own business.

Advantages

Disadvantages

What Type of Business Should I Go Into?

If you have decided to go into business for yourself, you still must decide which type of business will be best for you. There are two things to consider (1) select the type of work which is appealing to you, and (2) consider your qualifications for the type of business in which you are interested. Most employment can be divided into three basic types. These are working with people, things or ideas. If you like to work with people, service types of employment may be appealing for you. If you enjoy working with things, you might consider manufacturing or selling products. If you like working with ideas, you might select a business where you can sell a viewpoint or a theory which someone else can put into action. Consultants earn a livelihood by marketing ideas or providing counsel.

To help you in deciding on the type of employment which fits your interests, complete the questionnaire which follows.

What Kind of Small Business is For You? (Continued)

Interest Inventory

1. My hobbies are _____

2. My hobbies could lead to the following kinds of businesses _____

3. I do the following with my free time _____

4. I do not like to _____

5. I like to _____

6. I am good at _____

7. My favorite subjects at school are _____

8. My least favorite subjects at school are _____

9. Magazines or books I like to read are _____

10. Activities I am most interested in are _____

What Kind of Small Business is For You? (Continued)

After listing your likes, dislikes and interests, review them and try to think of businesses which will fit with your likes. List them below.

My Ideas:

First Choice _____

Second Choice _____

It will be necessary that you check into the qualifications and training which are required for the businesses which you have selected. It is also beneficial to know about additional training and education which will aid you in advancing in the job.

Write your responses to the following qualifications assessment.

Qualifications Assessment

1. I already have the following skills and experience which will help me in my chosen business: _____

2. I need the following skills and experience to help me in my chosen business: _____

3. I can get along without some of the above skills and qualifications because _____

4. I will need training in the following skills: _____

What Kind of Small Business is For You? (Continued)

5. My plan for acquiring the above training needed is _____
- _____
- _____
6. This training will cost _____
- _____
7. The time required for this training is approximately _____

Now that you have had a chance to think about your qualifications and needs, develop a plan to acquire the skills and qualifications which you will need in your business.

MY PLAN

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There is no handwriting or other markings on the paper.

LEARNING ACTIVITY D

BASIC BUSINESS TYPES

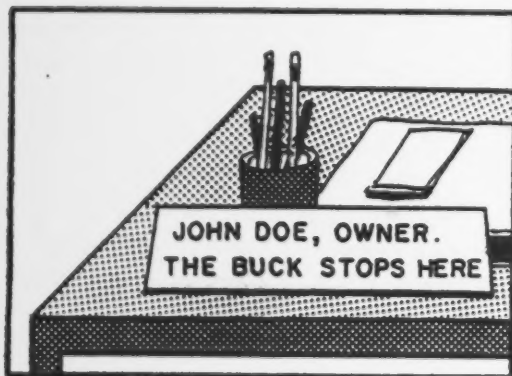
Objective: You will be able to list five advantages and disadvantages of the sole proprietorship, partnership, corporation and franchise.

There are four main types of business operation, sole proprietorship, partnership, corporation and franchise. These types all have certain advantages and disadvantages which you should be aware of.



SOLE PROPRIETORSHIP

In the sole proprietorship type of business organization, there is only one owner. Generally, the sole proprietorship is found in businesses limited to the owner and a few employees. This is the most common kind of business organization in the United States today. It is best suited for businesses which do not require a large amount of "start-up" money. Examples are butcher shops, barber shops, beauty salons, repair shops, service stations and delicatessens.



The advantages of this type of business organization are (1) simplicity of starting and/or closing the business, (2) the owner has freedom of action and complete control of the business, (3) profits need not be shared with anyone, (4) there are fewer regulations than for other types of business organization, and (5) there are fewer types of taxes to pay.

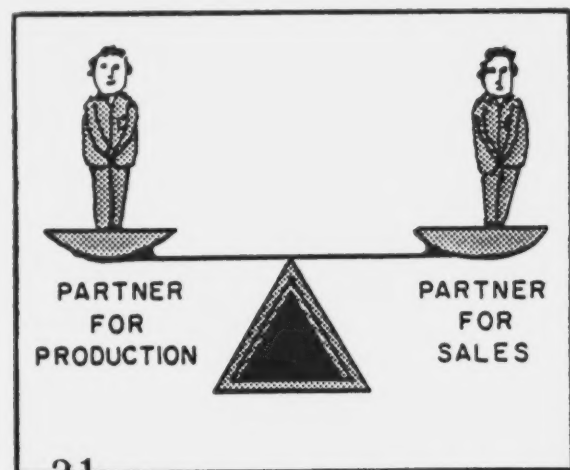
Basic Business Types (Continued)

There are also numerous disadvantages to the sole proprietorship. These are (1) difficulty in raising "start-up" money because only one person is responsible for the loan, (2) lack of expert help in operating the business and making decisions, (3) business risks cannot be shared with others, (4) there is a lack of business continuity if the sole owner becomes ill or dies, and (5) fringe benefits will not be provided by a parent company.

PARTNERSHIP

A partnership is a business which is owned by two or more people. It is sometimes referred to as a co-partnership. Because several owners may be involved, unforeseen problems are likely to arise in a partnership. For that reason there should always be a written agreement among all of the partners. The agreement which defines the duties and responsibilities of each partner relative to the business is called the Articles of the Co-partnership. This document should include (1) the date of the agreement, (2) names and addresses of each partner, (3) nature of the business, (4) name and address of the business, (5) length of agreement, (6) manner in which the partnership will be ended, (7) salary of each partner, (8) manner of sharing profit and losses, (9) investments of each partner, and (10) restraints on each partner.

Advantages of the partnership are (1) ease of formation, (2) low start-up costs, (3) greater variety of abilities, skills and ideas, (4) division of responsibilities, (5) additional sources of start-up money, and (6) easier sources for loans.



Basic Business Types (Continued)

Disadvantages of the partnership are (1) each owner is responsible for the acts of the others, (2) profits must be shared among all partners, (3) possibility of lack of effort among some of the partners, (4) limited expansion as a result of the partners' inability to acquire more money, and (5) complications which may result upon the death of a partner.

CORPORATION

A corporation is an association of owners (stockholders) which have the power to operate a business in the same manner as would be done by one person. A corporation, therefore, is considered an individual in the eyes of the law. The services of an attorney are required in order to charter a corporation. The charter document allows individuals of the corporation to carry on certain designated business activities. The application for a charter is called a Certificate of Incorporation.



Bylaws are written which state the regulations and limits which apply to the operation of the corporation.

The advantages of the corporation are: (1) limited liability (the corporation is responsible for debts rather than the individuals), (2) the expertise of many owners' skills and talents can be used, (3) easy transfer of ownership for the individual (A stockholder can sell

shares of stock to others), (4) ease of expansion by selling stock or corporate bonds to raise money, and (5) continued existence (If a stockholder dies, the corporation continues to operate with the stock going to the heirs).

Basic Business Types (Continued)

the national promotion and publicity, and (6) managerial training assistance is available. . .

Disadvantages of the franchise are: (1) franchisees may become too dependent on the parent company and neglect their own initiative, (2) too much control by the parent company, (3) difficulty in ending the operation profitably, and (4) the parent company may act in its own best interest rather than in the franchisee's best interest.

Make a list of the advantages and disadvantages of each of the four types of businesses.

Sole Proprietorship

Advantages:

1. _____
2. _____
3. _____
4. _____
5. _____

Disadvantages:

1. _____
2. _____
3. _____
4. _____
5. _____

Basic Business Types (Continued)

Partnership

Advantages:

1. _____
2. _____
3. _____
4. _____
5. _____

Disadvantages:

1. _____
2. _____
3. _____
4. _____
5. _____

Corporation

Advantages:

1. _____
2. _____
3. _____
4. _____
5. _____

Disadvantages:

1. _____
2. _____
3. _____
4. _____
5. _____

Basic Business Types (Continued)

Franchise

Advantages:

1. _____
2. _____
3. _____
4. _____
5. _____

Disadvantages:

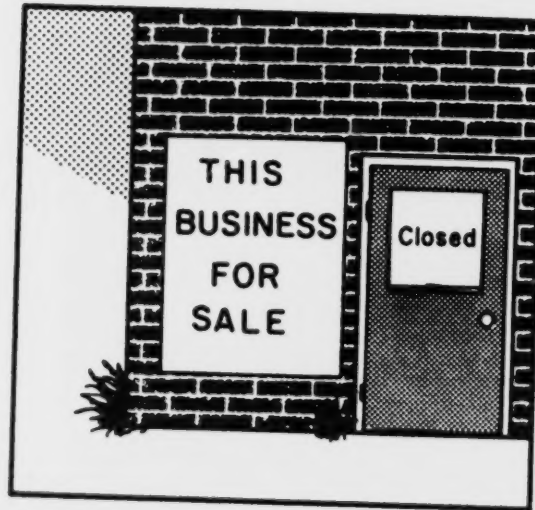
1. _____
2. _____
3. _____
4. _____
5. _____

Now that you have listed the advantages and disadvantages of each, which type of business do you think is best for you? _____

LEARNING ACTIVITY E
BUYING AN ESTABLISHED BUSINESS

Objective: You will be able to list five advantages and disadvantages of buying an established business.

Each year large numbers of owners discontinue small businesses. The reasons may vary. Some owners wish to retire, others prefer to move into a different type of business. Some owners cannot afford to upgrade machinery and equipment needed to continue operation.



You may consider buying an established business. However, it is very important to study the advantages and disadvantages before making any commitment.

Study carefully the advantages and disadvantages which follow:

Advantages of Buying an Established Business

1. You may be able to buy the business at a bargain price because the owner is anxious to sell.
2. You may save time and effort in establishing an inventory of needed stock and equipment.
3. You will probably acquire some customers who are already doing business with the company which you are purchasing.
4. The previous owners will be able to provide you with the benefits of their experiences in the business and in the community.

Buying an Established Business (Continued)

5. You may be buying a "good will" favorable public attitude toward the business at a reasonable price.

Disadvantages of Buying an Established Business

1. You may pay too much for the business because the previous owner did not accurately estimate the true worth of the business.
2. It may be difficult for you to make an accurate appraisal of the true value of the business. An accurate appraisal should be made by someone who is familiar with the business.
3. The previous owner may have established a bad reputation and previous customers may have found other suppliers.
4. The location may be poor.
5. You may not agree with the previous owner's choice of equipment and fixtures. Sometimes too, the equipment and fixtures may be in poor condition.

In your own words, list at least 5 advantages for buying an established business.

1. _____
2. _____
3. _____
4. _____
5. _____

Buying an Established Business (Continued)

In your own words, list at least 5 disadvantages for buying an established business.

1. _____
2. _____
3. _____
4. _____
5. _____

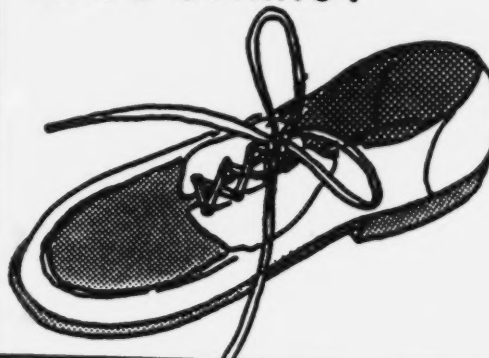
LEARNING ACTIVITY F

ESTIMATING COSTS AND FINANCING THE SMALL BUSINESS

Objective: You will be able to (a) plan the fixed and working capital needed for your business, (b) recognize five sources of capital, and (c) recognize three types of financial institutions which loan money.

It is important for the business owner to understand business financing. What types of expenses will occur? When must they be paid? What are the sources of money available? What problems are encountered in borrowing money? These are some of the questions which a person must consider before buying an established business.

YOU CAN'T OPERATE
A BUSINESS ON A
SHOE STRING!



Fixed and Working Capital

Expenditures for purchases of items which will be used over a long period of time before requiring replacement are called fixed capital. In this category one would include real estate, large equipment, fixtures and other long term expenditures.

The money used to keep the business in operation is known as working capital. In this category would be such items as rent, inventory, utilities, taxes and wages.

Estimating Costs and Financing the Small Business (Continued)

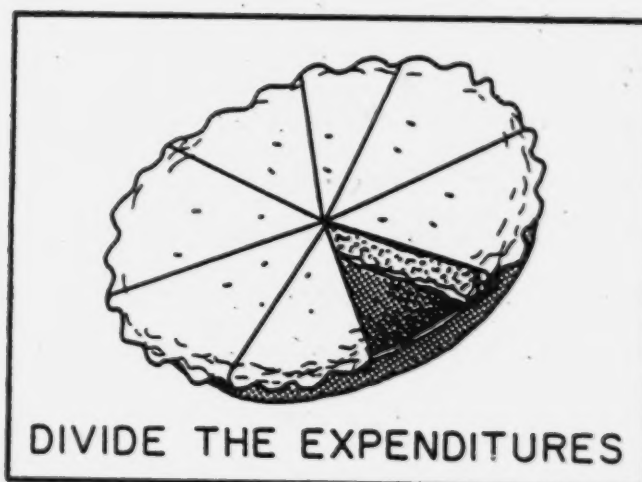
It is important for the business owner to anticipate the amount of money required to start a business. A manufacturing business invests a large proportion of its money on fixed capital, whereas a small retail business will invest a larger share in working capital.

In order to determine the amount of fixed capital required, the business owner must decide whether to buy or rent buildings, land and major equipment. The amount of fixed capital to be spent on fixtures, equipment and tools must also be determined.

After arriving at an estimate for fixed capital, the business owner must compute the amount of working capital required. In order to do this, the owner must investigate the tax rate for the county or municipality, determine electric power usage and cost, calculate water needs, plan the

number and types of employees needed, and investigate the practicing wage rates. If the building or land is to be rented, such costs must be accurately determined.

On the following pages are worksheets which will give you practice in estimating capital needs. Please complete them for the business of your choice.



Estimated Monthly Expenses		Your estimate of how much cash you need to start your business (See column 3.)	Figures to place in column (These fig- ures are typical of one kind of business. You may wish to include others.
Item	For One Year Estimate of Monthly Expenses		
Salary of owner-manager	\$ Column 1	\$ Column 2	Column 3 2 times column 1
All other salaries and wages			3 times column 1
Rent			3 times column 1
Advertising			3 times column 1
Delivery expense			3 times column 1
Supplies			3 times column 1
Telephone			3 times column 1
Other utilities			3 times column 1
Insurance			Payment required by insurance company
Taxes, including Social Security			4 times column 1
Interest			3 times column 1
Maintenance			3 times column 1
Legal and professional fees			3 times column 1
Miscellaneous			3 times column 1
STARTING COSTS ONLY PAID ONCE		ESTIMATE	
Fixtures and equipment		\$	Fill in worksheet 2 on the next page
Decorating and remodeling			Talk it over with a contractor
Installation of fixtures and equipment			Talk to suppliers from whom you buy
Starting inventory			Suppliers will prob- ably help estimate
Deposits with public utilities			Find out from utilities company
Legal and other professional fees			Lawyer, accountant, and so on
Licenses and permits			Find out from city offices what to do
Advertising and promotion for opening			Estimate what you'll use
Accounts receivable			What you need to buy until creditors pay
Cash			Unexpected expenses
Other			Make a separate list and enter
TOTAL ESTIMATED CASH WHICH YOU NEED TO START		48	Add up all the num- bers in columns.

Estimating Costs and Financing the Small Business (Continued)

WORKSHEET NO. 2*

List of Furniture, Fixtures, and Equipment

Leave out or add items to suit your business. Use separate sheets to list exactly what you need for each of the items below.	If you plan to pay cash in full, enter the full amount below and in the last column.	If you are going to pay by installments, fill out columns below. Enter in last column the downpayment plus at least one installment			Estimate of the cash needed
		Price	Downpayment	Amt. of each installment	
Counters	\$	\$	\$	\$	\$
Storage shelves, cabinets					
Display stands, shelves, tables					
Cash register					
Safe					
Window display fixtures					
Special lighting					
Outside sign					
Delivery equipment if needed					
TOTAL FURNITURE, FIXTURES, AND EQUIPMENT (Enter this figure in worksheet 1 under "Starting Costs Only Paid Once", page 34)					

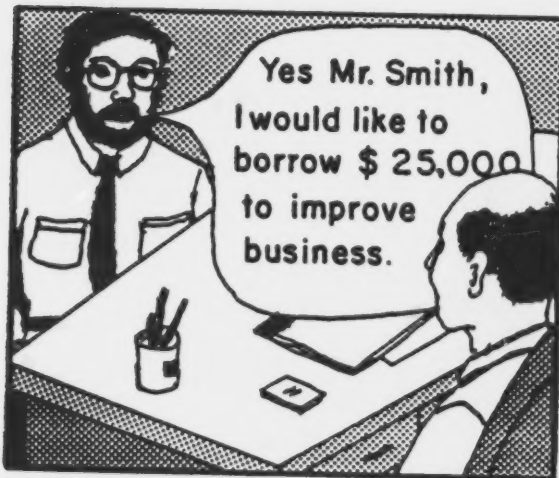
*Courtesy of Small Business Administration, Washington, D. C. 20202

Estimating Costs and Financing the Small Business (Continued)

Sources of Capital

Now that you have gained an estimate of the amount of capital required, it will be necessary to become familiar with the different sources of acquiring capital.

Your personal savings are one source of money which can be invested into the business. The primary advantage of using this source of investment is the saving in interest costs. Personal savings consist of money in savings accounts,



investments, real estate and other items of value such as art collections, antiques, etc. The business owner can choose to mortgage such valuables in order to gain capital. The valuables are used as collateral against the loan. If the business fails and the owner cannot pay back the bank or finance company, the collateral becomes the property of the

lending institution. It is also possible to take out a loan against a life insurance policy. The advantage in this type of loan is that repayment is not required over a set period of time.

Commercial banks are the most common sources of short term loans, generally for periods of one year or less. Some financial institutions will extend credit to new business owners. The owner can sometimes purchase the beginning inventory and supplies on credit. In such cases the amount of the loan can usually be paid over longer periods of time as the business prospers. In some cases friends and relatives may be willing to supply the initial capital required.

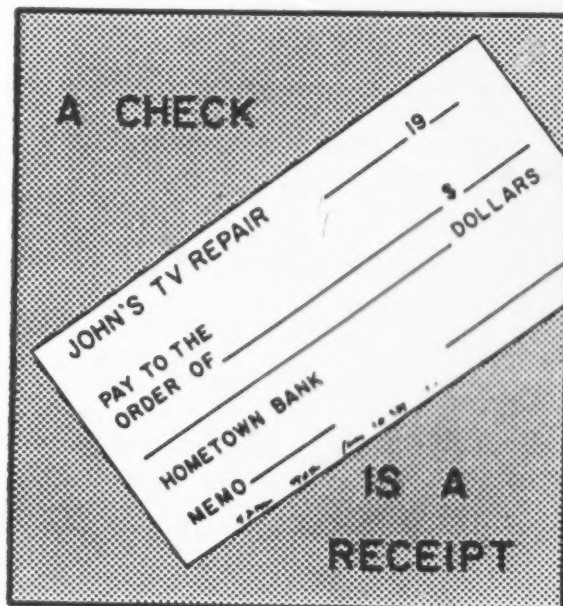
Estimating Costs and Financing the Small Business (Continued)

Another source to consider is the United States Small Business Administration. This is a federal government agency which is organized to assist small businesses. It offers financial aid in the form of guaranteed loans and also offers counsel concerning business operation and other sources of financial aid.

Types of Financial Institutions

A business proprietor should plan to open up a business checking account at a local bank. By paying bills with checks, the business is provided with receipts of bills paid. Monthly bank statements will indicate all deposits and withdrawals. If the business has a good credit rating, loans for 30, 60 or 90 days can usually be arranged. This type of credit is very essential to a new and struggling business. The bank also serves as a source of advice on business problems. Savings and loan associations will also provide loans at comparable rates to banks.

Commercial finance companies will also lend money to business owners. They will require loan security, such as accounts receivable, fixtures or equipment. The cost of borrowing money is generally somewhat higher than comparable banks and savings and loan companies.



Estimating Costs and Financing the Small Business (Continued)

SEARCH A WORD

Locate the following sources of capital and types of financial institutions in the puzzle below.

Personal savings

Suppliers

Relatives

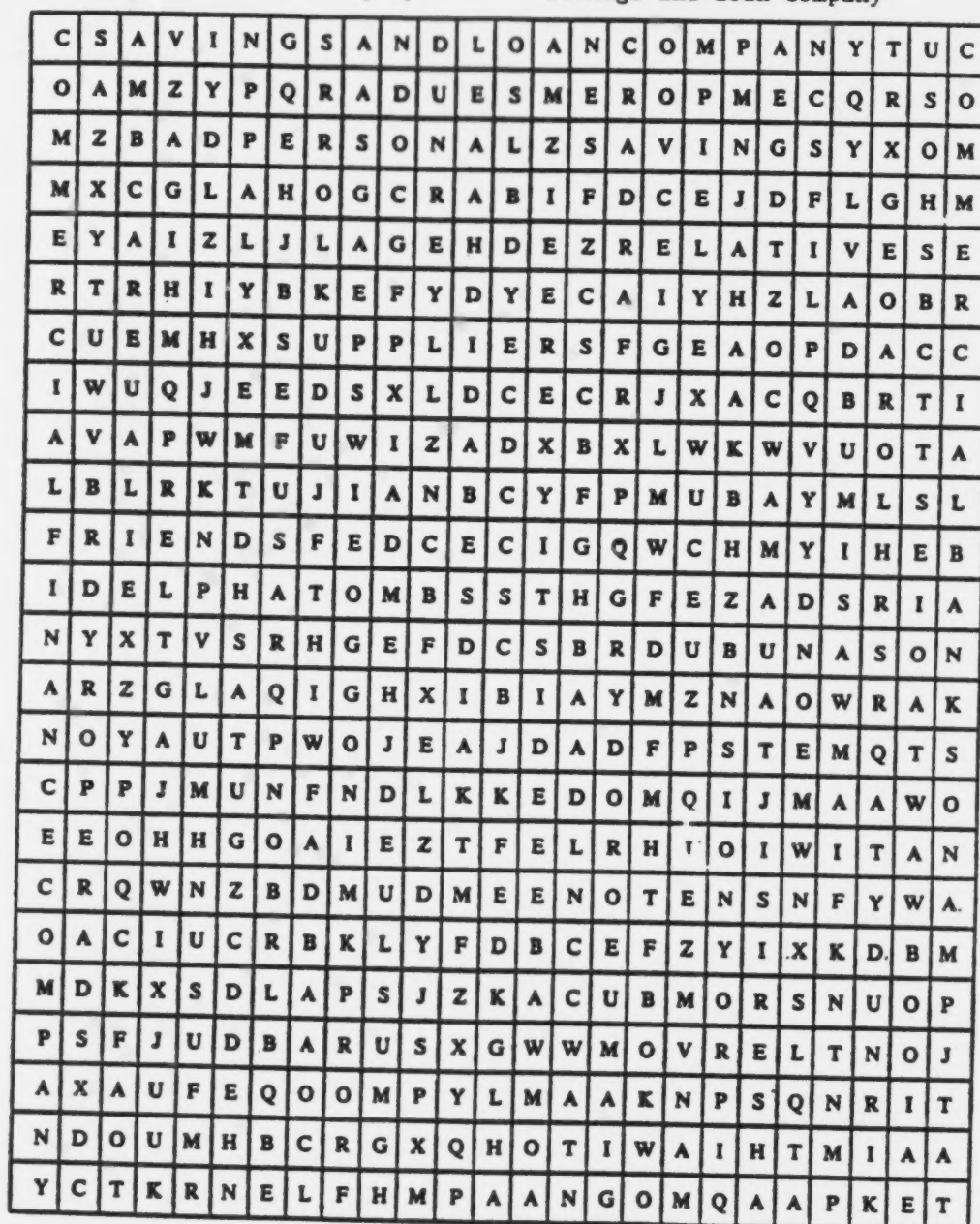
Commercial finance company

Commercial banks

Friends

Small business admin.

Savings and loan company

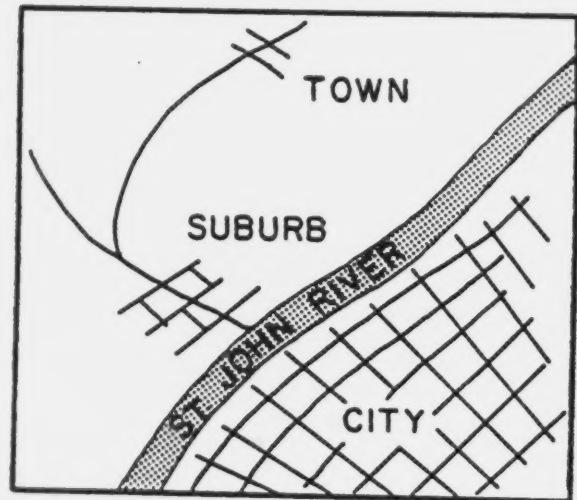


LEARNING ACTIVITY G

LOCATION AND LAYOUT OF PHYSICAL FACILITIES'

Objective: You will be able to (1) list three types of business locations, (2) explain four factors in choosing a business location, and (3) sketch the layout of a business.

The success of a business is largely dependent on its location. The business should be located quite close to the potential customers. There are three main types of business locations. These are small town, city and suburb.

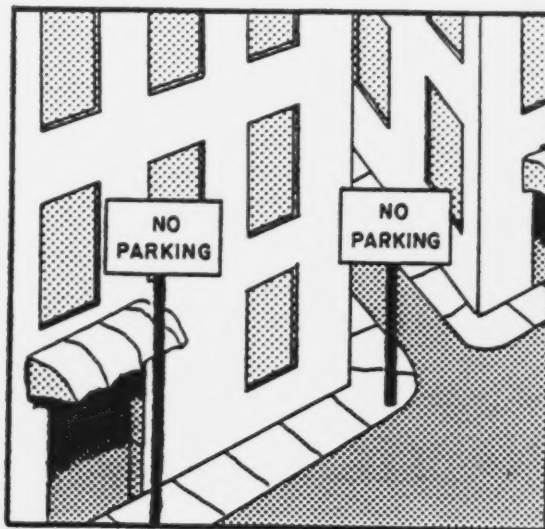


Pros and Cons of the Three Locations

When choosing a small town for establishing a business, the location is secondary to the economic climate of the community. Small town businesses usually cluster along or near the main street. Walk-in customers account for most of the trade. While parking should be considered, it is not as important as it would be in the big city. A small town can support a variety of household, food and service establishments. It is wise to thoroughly investigate the probability of success whenever planning to start a business in a one-industry town. If the major industry slows down or closes, the economy of the entire community can be affected. One should consider the friendliness and spirit of cooperation which is found in most small towns. Small town merchants will seldom become wealthy but the pleasant social atmosphere will offer a good business incentive.

Location and Layout of Physical Facilities (Continued)

For the purpose of this learning activity, the city will be considered as a community of over 50,000 population. The downtown provides the primary shopping area of the city. Although some shopping centers are found in the city, most are located in the suburbs. The downtown is the transportation hub and focal point of the community. Parking, traffic problems,



and high real estate prices have been changing customer buying habits, producing an outward movement toward the suburbs. Many cities are engaged in downtown urban renewal projects in an attempt to bring customers back to the downtown. Urban renewal improvements offer many advantages for the small business. The close proximity of businesses located together draws more customers. The selection of goods can be larger and prices can be lowered.

Usually businesses such as bakeries, light industry and auto repair shops will locate in secondary business districts. These areas are usually rings around the central city and share in the strengths and weaknesses of the central city.



Migration from the cities to the suburbs during the past thirty years has created a need for shopping centers to serve this growing population. A shopping center, or plaza, is a group

Location and Layout of Physical Facilities (Continued)

of commercial businesses which are planned, developed and managed as a unit. Shopping centers are usually served by good roads and include sufficient off-street parking. There are three basic categories of shopping centers, neighborhood, community and region. The size of the area served determines the size of the center, type of businesses and services offered.

TEST YOUR KNOWLEDGE

List and explain briefly each of the three business locations.

1.

2.

3.

Location and Layout of Physical Facilities (Continued)

Choosing a Location

Business success is dependent to a large extent on gaining an understanding of the surrounding community. There are several factors which must be considered whenever a location is being chosen.

It is not a good idea to locate your business in a deteriorating area of the community. Take time to investigate the economic and income trends of the community in which you are tentatively planning to locate. It is helpful to gain information from State Departments of Commerce and market surveys. Also it is wise to look at the types of business in the area. Other business establishments will usually serve the same group of customers and such business will generally help to support each other. However, establishments which cater to groups with dissimilar interests should not be grouped close together. For example, a flower shop would be improperly located if it were near to a hardware store, auto parts store and machine shop.



A very important factor in choosing a location is the potential market for the business. You should take the time to thoroughly survey the needs of the community. Ask such question as "Will customers have difficulty in reaching the business?" "Is adequate parking available?" "Is the flow of traffic into town (or out-of-town) advantageous?" "Are there other businesses which sell the same product or perform the same service?" "Do potential customers need and can they afford the goods or services offered?"

Location and Layout of Physical Facilities (Continued)

TEST YOUR KNOWLEDGE

Indicate how the following factors influence choosing a location for a potential business.

1. Population and economic trends _____

2. Competitive business near your location _____

3. Non-competitive business near your location _____

4. The potential market _____

Location and Layout of Physical Facilities (Continued)

Draw a floor plan of your selected business establishment. Locate the furniture, fixtures, machines and other equipment needed for your business.

LEARNING ACTIVITY H
ADVERTISING YOUR BUSINESS

Objective: You will be able to identify seven types of advertising media which might be used in your business and design six types of business media.

Advertising is one very important aspect of insuring business success. You may produce a very good product or service, but there is the probability that few people will buy it unless they know about it. You must plan how to attract customers if you want to be assured of having a profitable business.



Ask yourself some basic questions: "Where will your future customers be living?" "How will you attract them?" "What media will you use to gain attention?" "How much can you afford to spend on advertising?"

You are probably familiar with the many types of advertising media which are being used successfully. Some of these types are:

- | | |
|-------------------|------------------------|
| 1. Business cards | 9. Television |
| 2. Car cards | 10. Van and taxi signs |
| 3. Direct mail | 11. Sky writing |
| 4. Hand bills | 12. Word of mouth |
| 5. Magazines | |
| 6. Newspapers | |
| 7. Outdoor signs | |
| 8. Radio | |

Advertising Your Business (Continued)

Name the five of these media which you feel would be most successful for your business. Name them in order of preference.

1. _____
2. _____
3. _____
4. _____
5. _____

Advertising Your Business (Continued)

SEARCH-A-WORD

Directions: From the list below, circle the advertising media in the Search-a-word diagram.

R	C	E	N	V	A	N	S	I	G	N	W	Y	T	O	T
E	A	Q	U	X	E	I	D	H	M	G	N	R	E	E	C
T	R	D	R	S	A	G	R	M	E	G	W	I	L	S	R
F	C	R	I	D	S	N	B	T	W	A	O	T	E	D	O
N	A	R	Q	O	Z	Y	U	F	D	N	R	P	V	U	C
L	R	H	A	B	N	I	S	H	A	N	D	B	I	L	L
F	D	L	S	X	W	R	I	E	H	T	O	T	S	E	D
E	S	R	I	C	E	G	N	C	H	R	F	R	I	M	I
L	M	O	Z	A	I	N	E	P	S	D	M	O	O	A	G
C	A	V	I	T	M	I	S	O	U	D	O	N	N	G	I
S	Z	E	C	P	U	T	S	L	O	I	U	A	T	A	W
N	D	W	I	O	Z	I	C	S	H	O	T	L	H	Z	U
T	B	S	N	V	P	R	A	E	L	L	H	A	D	I	A
Q	S	T	X	B	Y	W	R	G	R	A	P	L	D	N	Z
V	Z	A	Q	T	U	Y	D	S	G	I	H	M	N	E	Q
I	B	C	Q	F	D	K	M	O	Z	R	D	E	B	S	V
A	D	C	J	B	Q	S	R	I	P	T	W	X	Y	G	A
O	U	T	D	O	O	R	S	I	G	N	S	Q	E	Q	Z

Handbill
Radio
Word of mouth
Magazines
Sky writing

Business card
Direct mail
Outdoor signs
Van sign
Television
Car cards

Advertising Your Business (Continued)

Design a sample business card which you will be proud to present to your customer.

Design a direct mail postal card which you will mail to your customers.

Write a slogan which could be used on the radio to advertise your business.

EXAMPLE: "McTool Will Keep You Cool"

McTool Air Conditioning

Advertising Your Business (Continued)

Design a car card to be used inside of a local bus.

Design a sign for the side of a delivery van.

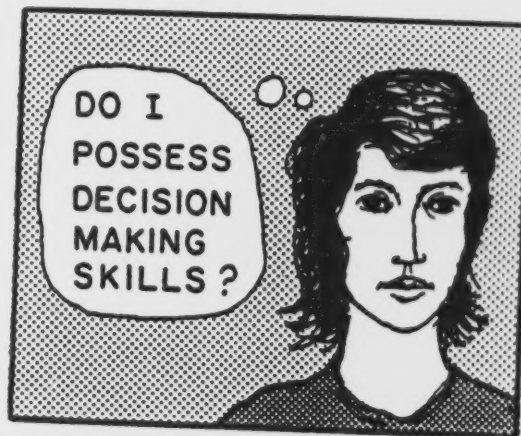
Write a statement of at least 10 words which you would like to hear your customers say about your business.

Write at least 5 words about your business which you could have an airplane spell out in a sky sign.

LEARNING ACTIVITY I
OPERATING YOUR OWN BUSINESS

Objective: You will develop a plan to provide the seven major management functions of your business, including buying, pricing, selling, selection of employees, training, providing customer credit and keeping records.

Considering all of the information which you have already studied, you may feel that you are ready to start your own business. There are, however, several other factors which must be considered. These factors fit under the category of business management.



Inadequate or inefficient management causes many businesses to fail. Some of the major functions of business management are buying, pricing, selling, selecting employees, training employees, providing customer credit and keeping records.

Skillful buying, pricing and selling are essential in order to make a profit. "How much interest can you afford to pay?" "When you are getting started, will you take in enough money to pay the bills necessary to keep up an inventory?" "What are your competitors charging?" "Can you undercut them and still make a reasonable profit?"

The ability to select the right kind of employees will be very important to you in the long run. You will need workers who can perform the job well and who also have a good attitude toward co-workers and the business in general. If you have several employees who are absent a lot or who are non-productive on the job, your business earnings will suffer greatly.

Operating Your Own Business (Continued)

"How will you go about training new employees for their jobs?" "Can you afford to take supervisors off from the job long enough to provide training?" "How much training time can you afford for each new employee?" "What about safety?" "Will you conduct safety training programs as a part of on-the-job training?" "Will the cost of training pay for itself in increased productivity?"



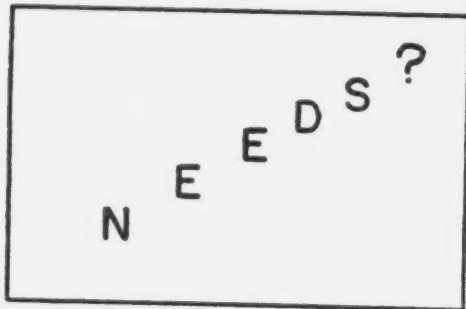
Some customers do not have the necessary cash to pay their bills within the customary thirty day period. Do you want to take a chance on losing these customers or would you consider extending credit?

Accurate records are very essential to business success. You must keep accurate accounts of debts and credits if you are to know how much profit you are making. At all times you should be informed on the general financial health of your business. Aside from profit and loss records, there are many other types of records which must be kept to date. Some of these are salary and wage records, invoices for sales, travel accounts for sales personnel, overhead costs and utility payments.

Operating Your Own Business (Continued)

To help you with this activity, talk with people who have operated their own business or have business experience. Then answer the following questions in your own words.

1. Write your plan for buying items needed in your business? Questions you



should answer are: How will I find out what my customers want? How will I keep track of my inventory? When will I order? How much will I order? Will I buy from just one supplier? Where will I find out about new ideas or products?

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper appears to be from a notebook or a standard ruled sheet of paper. There is no handwriting or other markings on the page.

Operating Your Own Business (Continued)

2. Write your plan for charging prices on goods and services. Questions you should answer are: How will I compute the charge for each item I sell or each service I render? How will I find out what other similar businesses are charging?

HOW MUCH
DO I CHARGE
?

3. Write your plan for selling. Questions you should answer are: Will I have sales clerks or will my business be self service? How will I give estimates if I have a service business?

SELLING ?

4. Write your plan for selecting your employees?

Questions you should answer are: Will I
need to hire someone to help me? What
are sources for finding help? What kind
of people will I need? How much will I pay?

HOW TO
SELECT
EMPLOYEES ?

5. Write your plan for training your employees? Questions you should answer

TRAINING ?

are: How will I train my employees?
Who will train my employees? Will I
pay my employees during their training
period? How much will they be paid?

6. Write your plan for providing customer credit. Questions you should answer are:
- Will I allow my customer to buy on credit?
- Will I honor credit cards? How will I collect from bad risk customers? What interest rates will I charge for credit?

CREDIT ?

7. Write your plan for recordkeeping? Questions you should answer are: What records will you keep? Will you hire a bookkeeper or will you keep your own books?

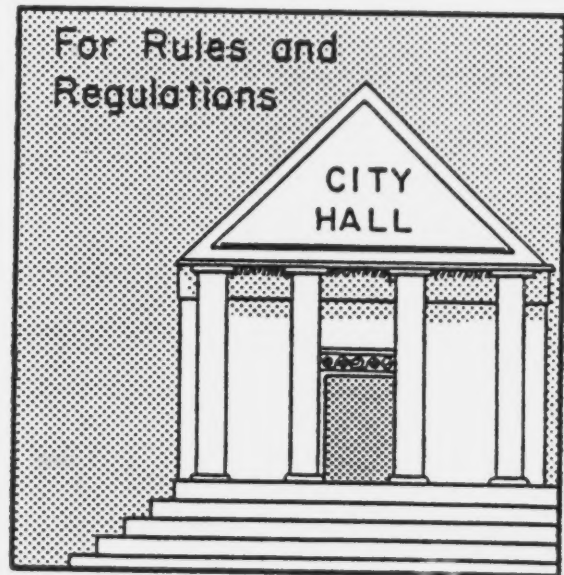
KEEPING
RECORDS ?

LEARNING ACTIVITY J

LICENSING, TAXATION AND INSURANCE

Objective: You will be able to list seven agencies which provide services in the areas of licensing, taxation and insurance.

The most common types of regulations which affect the business person are licensing, taxes and insurance. The information presented here is of a very general nature and is not intended as a substitute for legal advice. The services of an attorney should be sought for all legal matters involving licensing, taxation and insurance.



Licensing

Licensing controls affect nearly all types of business. The degree of regulation will depend on the nature of the business. The public interest is taken into consideration in licensing. Some businesses are regulated to a greater extent than others because protection of the public is more essential in some fields than in others. If your business operations are located entirely within a state (intrastate), you will be affected primarily by state and local regulations. If you are engaged in a business which crosses state lines (interstate), federal regulations will also apply.

Most business licenses require a fee and must be renewed periodically, usually once a year. For many businesses, a written application must be

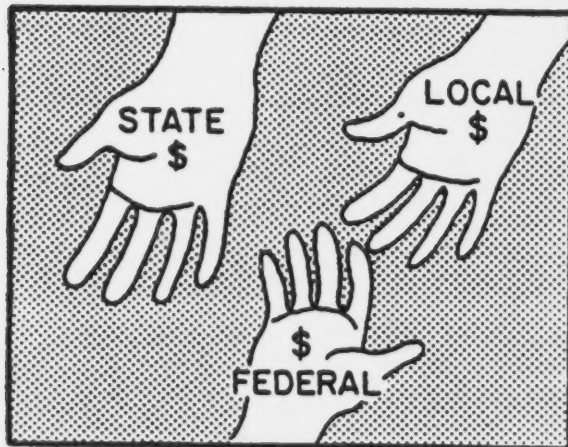


Licensing, Taxation and Insurance (Continued)

filed annually and the business record is reviewed before renewal is granted. Some types of businesses such as real estate require that the applicant pass a test before a license is granted. This procedure assures that only knowledgeable persons will enter the business, thereby assuring the public of competence. State, municipal, and county authorities may be contacted for complete information on licensing requirements, building codes, zoning restrictions, and health and safety regulations.

Taxes

Your business will be subject to federal, state and local taxation. At the federal level, you will be responsible for social security, federal withholding and excise taxes. A booklet entitled "A Tax Guide for Small Businesses" is available from the Internal Revenue Service.



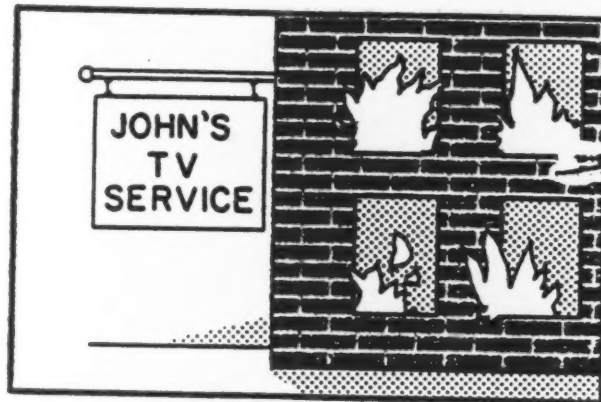
Taxes levied by the states are unemployment compensation, workmen's disability, income, sales, and occupational and/or business license taxes. Information on state taxes and fees can be obtained from the state agency responsible for tax and revenue collections in your state.

Localities will levy many of the same taxes as are required by the states. Examples are sales taxes and business license taxes. For information contact your local county or city treasurer's office.

Licensing, Taxation and Insurance (Continued)

Insurance

It is wise to protect your business against losses due to fires, floods, tornados and other types of disasters. Casualty insurance to protect against losses due to theft, burglary and injury or death due to negligence should also be considered. The area of insurance is very complex and will be considered more fully in another LAP. You should always consult an agent who represents a reliable insurance company before making any purchase.



TEST YOUR KNOWLEDGE

Make a list of federal, state and local agencies which you will contact for the licensing, taxation and insurance requirements required for your selected business. Include the name of the agencies, complete addresses and phone numbers. Your instructor will furnish you with directory materials.

Business License

Federal

Name _____

Address _____

Phone No. _____

Licensing, Taxation and Insurance (Continued)

State

Name _____

Address _____

Phone No. _____

Local

Name _____

Address _____

Phone No. _____

Taxation

Federal

Name _____

Address _____

Phone No. _____

State

Name _____

Address _____

Phone No. _____

Local

Name _____

Address _____

Phone No. _____

Licensing, Taxation and Insurance (Continued)

Insurance Representative

Name _____

Address _____

Phone No. _____

List types of coverage which you will obtain

POSTTEST

Define in your own words the following terms related to going into a business of your own.

1. Bankruptcy _____

2. Initiative _____

3. Franchise _____

4. Profit _____

5. Independent _____

6. Corporation _____

7. Competition _____

8. Partnership _____

9. Union _____

10. Trade association _____

Posttest (Continued)

List at least 5 questions which persons who are going into business for themselves should consider regarding their personality.

11. _____
12. _____
13. _____
14. _____
15. _____

List 5 advantages and disadvantages of going into business for yourself.

Advantages

16. _____
17. _____
18. _____
19. _____
20. _____

Disadvantages

21. _____
22. _____
23. _____
24. _____
25. _____

Posttest (Continued)

List 5 advantages and 4 disadvantages of the sole proprietorship.

Advantages

- 26. _____
- 27. _____
- 28. _____
- 29. _____
- 30. _____

Disadvantages

- 31. _____
- 32. _____
- 33. _____
- 34. _____

List 5 advantages and disadvantages of the partnership.

Advantages

- 35. _____
- 36. _____
- 37. _____
- 38. _____
- 39. _____

Disadvantages

- 40. _____
- 41. _____
- 42. _____
- 43. _____
- 44. _____

Posttest (Continued)

List three (3) advantages and disadvantages of buying an established business.

Advantages

45. _____
46. _____
47. _____

Disadvantages

48. _____
49. _____
50. _____

Organize the following expenses into two groups—fixed capital expenses and working capital expenses. Place an F on the blanks at the left if the expense is a fixed expense and place a W in the blank if it is a working capital expense.

- ___ 51. Salary of owner manager
___ 52. Licenses and permits
___ 53. Advertising and promotion for opening
___ 54. Salary and wages of employees
___ 55. Rent
___ 56. Fixtures and equipment
___ 57. Counters
___ 58. Outside sign
___ 59. Insurance
___ 60. Window display fixtures
___ 61. Special lighting

Posttest (Continued)

- ___ 62. Utilities
- ___ 63. Telephone
- ___ 64. Maintenance
- ___ 65. Safe
- ___ 66. Storage shelves
- ___ 67. Delivery equipment
- ___ 68. Cash register
- ___ 69. Taxes
- ___ 70. Advertising

List 5 sources of acquiring capital for your business.

- 71. _____
- 72. _____
- 73. _____
- 74. _____
- 75. _____

Make a list of 7 factors which should be considered when choosing a location for a business.

- 76. _____
- 77. _____
- 78. _____
- 79. _____
- 80. _____
- 81. _____
- 82. _____

Posttest (Continued)

List ten types of media which could be used in advertising and promoting your own business.

83. _____
84. _____
85. _____
86. _____
87. _____
88. _____
89. _____
90. _____
91. _____
92. _____

Name 5 functions of management. Then describe what the manager must actually do for each function.

93. _____

94. _____

95. _____

96. _____

97. _____

Posttest (Continued)

98. What is the difference between intrastate and interstate commerce?

99. What types of taxes will you be expected to pay? _____

100. What kinds of insurance will you require for your business? _____

ANSWER KEY FOR ACTIVITY A

1. Advertising--The use of various media to inform the public of a particular business, product or service.
2. Apprentice--A person who is learning an occupation through on-the-job experience in a supervised apprenticeship program.
3. Bankruptcy--The state of being unable to pay debts as defined under the federal bankruptcy law.
4. Bonding--Insuring a person or company against a preset amount of business loss.
5. Budget--An estimated financial plan which is an aid in keeping expenses in line with income.
6. Building permit--A document granted by a county or municipality for building or remodelling a structure.
7. Business license--A document which indicates legalized approval of a business by a local or state government.
8. Capital--The money, buildings, machines and tools used to manufacture goods and provide service.
9. Competition--A continuing struggle among business firms to gain a larger share of a market or to obtain other business advantages.
10. Consumer--One who uses goods or services.
11. Corporation--Method of organizing resources when a business is owned by stockholders.
12. Estimate--A judgment of the net value of goods or services.
13. Entrepreneur--An individual who initiates and operates business.
14. Franchise--An agreement with a company or manufacturer which provides the right to market a product, or provide a service.

Answer Key for Activity A (Continued)

15. Fringe Benefits--Supplementary benefits in addition to wages.
16. Incentive--Factors which encourage workers or owners to sell or produce more goods and/or services.
17. Independent--Free from the influence or control of others.
18. Initiative--To take the lead; to start something new.
19. Labor union--A group of employees who organize together to protect their common interests.
20. Overhead--The on-going costs involved in running a business, such as maintenance, utilities and taxes.
21. Partnership--A form of business organization involving the association of two or more persons.
22. Persistence--On-going effort or determination.
23. Profit--The monetary gain from producing goods or services.
24. Record keeping--Maintaining the financial records of a business.
25. Regulation--Local, state or federal governmental control over specific business and economic activities.
26. Service--Assistance which is provided to a small business by private or governmental agencies.
27. Sole proprietorship--A form of business organization in which a business is owned by one person.
28. Trade association--An organization formed by businesspersons to advance a particular trade or industry.
29. Utilities cost--The electrical, water, heat and air conditioning costs for operating a business.
30. Zoning laws--State or local regulations which control building and/or land use.

ANSWER KEY FOR ACTIVITY B

Rating scale answers will vary.

Five questions to ask one's self (select from the following).

1. Do I have initiative?
2. What is my attitude toward people?
3. Am I a leader?
4. Am I a responsible person?
5. Am I a good worker?
6. Can people trust me?

ANSWER KEY FOR ACTIVITY C

Advantages

1. Freedom to make own decisions.
2. Ability to set own working hours.
3. Ability to set own salary
4. Ability to choose own workplace
and kind of work.
5. Freedom to hire your own
employees

Disadvantages

1. May not be a secure job.
2. May be long working hours.
3. No fringe benefits provided.
4. A great deal of responsibility to
employees and customers.
5. Loss of investment if business
fails.

Answers to other parts to Learning Activity C will vary.

ANSWER KEY FOR ACTIVITY D

Sole Proprietorship

Advantages:

1. Easy to start up and close the business.
2. The owner is the boss.
3. No sharing of profits.
4. Fewer governmental regulations.
5. Fewer taxes.

Disadvantages:

1. Difficulty in raising start-up money.
2. Lack of help in making decisions.
3. No one with which to share the risk.
4. Business is ended on owner's death
5. Fringe benefits will not be provided by a parent company.

Partnership

Advantages:

1. Ease of starting up.
2. Low start-up costs.
3. Variety of talents and skills of partners.
4. Additional source of start-up money.
5. Easier to borrow money.

Disadvantages:

1. Each owner is responsible for the acts of others.
2. Sharing of profits.
3. Partner's lack of effort.
4. Limited expansion.
5. Complications on death of partners.

Answer Key for Activity D (Continued)

Corporation

Advantages:

1. Limited liability of the individuals involved.
2. Variety of talent and skills.
3. Easy transfer of ownership.
4. Easy expansion from sale of stocks and bonds.
5. Corporation lives on forever even when one or more people die.

Disadvantages:

1. Complex organization.
2. High start-up costs.
3. Lack of freedom of action
4. Many governmental regulations.
5. Profit sharing.

Franchise

Advantages:

1. May require less start-up costs.
2. Training provided by parent company.
3. Failure and risk minimized.
4. Financial assistance may be available from parent company.
5. Benefits of national promotion.
6. Management assistance.

Disadvantages:

1. Franchisee may become too dependent on parent company.
2. Too much control by parent company.
3. Difficulty in ending the operation profitably.
4. Parent company may act on its own behalf rather than the franchisee's.

ANSWER KEY FOR ACTIVITY E

Possible answers on advantages for buying an established business.

1. You may be able to buy the business at a bargain price because the owner may be anxious to sell and give you a good buy.
2. You may save time and effort by establishing your inventory of needed stock and equipment.
3. You may acquire customers who are already dealing with the company you are buying.
4. The previous owner may be able to give you the benefit of personal experience in the business and in the community.
5. You may be buying that favorable public attitude toward the business which is called "good will" at an inexpensive price.

Possible answers on disadvantages for buying a going business.

1. You might pay too much for the business because the former owner does not tell the true worth of the business.
2. You may not make a good appraisal of the true value of the business.
3. The former owner may have had a bad reputation and former customers may not wish to deal with you.
4. The location may be poor.
5. Former owner's choice of equipment and fixtures may have been poor or they may be in poor condition.

ANSWER KEY FOR ACTIVITY F

C	S	A	V	I	N	G	S	A	N	D	L	O	A	N	C	O	M	P	A	N	Y	T	U	C
O	A	M	Z	Y	P	Q	R	A	D	U	E	S	M	E	R	O	P	M	E	C	Q	R	S	O
M	Z	B	A	D	P	E	R	S	O	N	A	L	Z	S	A	V	I	N	G	S	Y	X	O	M
M	X	C	G	L	A	H	O	G	C	R	A	B	I	F	D	C	E	J	D	F	L	G	H	M
E	Y	A	I	Z	L	J	L	A	G	E	H	D	E	Z	R	E	L	A	T	I	V	E	S	E
R	T	R	H	I	Y	B	K	E	F	Y	D	Y	E	C	A	I	Y	H	Z	L	A	O	B	R
C	U	E	M	H	X	S	U	P	P	L	I	E	R	S	F	G	E	A	O	P	D	A	C	C
I	W	U	Q	J	E	E	D	S	X	L	D	C	E	C	R	J	X	A	C	Q	B	R	T	I
A	V	A	P	W	M	F	U	W	I	Z	A	D	X	B	X	L	W	K	W	V	U	O	T	A
L	B	L	R	K	T	U	J	I	A	N	B	C	Y	F	P	M	U	B	A	Y	M	L	S	L
F	R	I	E	N	D	S	F	E	D	C	E	C	I	G	Q	W	C	H	M	Y	I	H	E	B
I	D	E	L	P	H	A	T	O	M	B	S	S	T	H	G	F	E	Z	A	D	S	R	I	A
N	Y	X	T	V	S	R	H	G	E	F	D	C	S	B	R	D	U	B	U	N	A	S	O	N
A	R	Z	G	L	A	Q	I	G	H	X	I	B	I	A	Y	M	Z	N	A	O	W	R	A	K
N	O	Y	A	U	T	P	W	O	J	E	A	J	D	A	D	F	P	S	T	E	M	Q	T	S
C	P	P	J	M	U	N	F	N	D	L	K	K	E	D	O	M	Q	I	J	M	A	A	W	O
E	E	O	H	H	G	O	A	I	E	Z	T	F	E	L	R	H	I	O	I	W	I	T	A	N
C	R	Q	W	N	Z	B	D	M	U	D	M	E	E	N	O	T	E	N	S	N	F	Y	W	A
O	A	C	I	U	C	R	B	K	L	Y	F	D	B	C	E	F	Z	Y	I	X	K	D	B	M
M	D	K	X	S	D	L	A	P	S	J	Z	K	A	C	U	B	M	O	R	S	N	U	O	P
P	S	F	J	U	D	B	A	R	U	S	X	G	W	W	M	O	V	R	E	L	T	N	O	J
A	X	A	U	F	E	Q	O	O	M	P	Y	L	M	A	A	K	N	P	S	Q	N	R	I	T
N	D	O	U	M	H	B	C	R	G	X	Q	H	O	T	I	W	A	I	H	T	M	I	A	A
Y	C	T	K	R	N	E	L	F	H	M	P	A	A	N	G	O	M	Q	A	A	P	K	E	T

ANSWER KEY FOR ACTIVITY G

Activities will be evaluated on an individual basis.

ANSWER KEY FOR ACTIVITY H

R	C	E	N	V	A	N	S	I	G	N	W	Y	T	O	T
E	A	Q	U	X	E	I	D	H	M	G	N	R	E	E	C
T	R	D	R	S	A	G	R	M	E	G	W	I	L	S	R
F	C	R	I	D	S	N	B	T	W	A	O	T	E	D	O
N	A	R	Q	O	Z	Y	U	F	D	N	R	P	V	U	C
L	R	H	A	B	N	I	S	H	A	N	D	B	I	L	L
F	D	L	S	X	W	R	I	E	H	T	O	T	S	E	D
E	S	R	I	C	E	G	N	C	H	R	F	R	I	M	I
L	M	O	Z	A	I	N	E	P	S	D	M	O	O	A	G
C	A	V	I	T	M	I	S	O	U	D	O	N	N	G	I
S	Z	E	C	P	U	T	S	L	O	I	U	A	T	A	W
N	D	W	I	O	Z	I	C	S	H	O	T	L	H	Z	U
T	B	S	N	V	P	R	A	E	L	L	H	A	D	I	A
Q	S	T	X	B	Y	W	R	G	R	A	P	L	D	N	Z
V	Z	A	Q	T	U	Y	D	S	G	I	H	M	N	E	Q
I	B	C	Q	F	D	K	M	O	Z	R	D	E	B	S	V
A	D	C	J	B	Q	S	R	I	P	T	W	X	Y	G	A
O	U	T	D	O	O	R	S	I	G	N	S	Q	E	Q	Z

The media design needed for a business will be evaluated on an individual basis.

ANSWER KEY FOR ACTIVITY I

Plans which students develop will be evaluated individually. The instructor will also evaluate each plan based on how well the student answered the questions for each plan developed.

Plan for Buying Items Needed

1. Student should have provided satisfactory answers to the following:
 - A. How will I find out what my customer wants?
 - B. How will I keep track of my inventory?
 - C. When will I order?
 - D. Will I buy from just one supplier?
 - E. Where will I find out about new ideas or products?

Plan for Charging for Goods and Services

2. Student should have provided satisfactory answers to the following:
 - A. How will I compute the charge for each item I sell or each service I render?
 - B. How will I find out what other similar businesses are charging?

Plan for Selling

3. Student should have provided satisfactory answers to the following:
 - A. Will I have sales clerks or will my business be self-service?
 - B. How will I give estimates if I have a service business?

Answer Key for Activity I (Continued)

Plan for Selecting Employees

4. Student should have provided satisfactory answers to the following:
- A. Will I need to have someone help me?
 - B. What are sources for finding help?
 - C. What kind of people will I need?
 - D. How much will I pay?

Plan for Training Employees

5. Student should have provided satisfactory answers to the following:
- A. How will I train my employees?
 - B. Who will train my employees?
 - C. Will I pay my employees during their training period?
 - D. How much will they be paid?

Plan for Providing Customer Credit

6. Student should have provided satisfactory answers to the following:
- A. Will I allow my customer to buy on credit?
 - B. Will I honor credit cards?
 - C. How will I collect from "dead beats"?
 - D. What interest rate will I charge for credit?

Plan for Recordkeeping

7. Student should have provided satisfactory answers to the following:
- A. What records will I keep?
 - B. Will I hire a bookkeeper or will I keep my own books?

ANSWER KEY FOR ACTIVITY J

Students' answers will be evaluated in terms of the individual place of business selected.

PRETEST - POSTTEST ANSWER KEY

1. Bankruptcy--The state of being unable to pay debts as defined under the federal bankruptcy law.
2. Initiative--To take the lead; to start something new.
3. Franchise--An agreement with a company or manufacturer which provides the right to market a product or provide a service.
4. Profit--The monetary gain from producing goods or services.
5. Independent--Free from the influence or control of others.
6. Corporation--Method of organizing resources when business is owned by stockholders.
7. Competition--A continuing struggle among business firms to gain a larger share of the market or to obtain other business advantages.
8. Partnership--A form of business organization involving the association of two or more persons.
9. Labor union--A group of employees who organize together to protect the common interest.
10. Trade association--An organization found by businesspersons to advance a particular trade or industry.

Possible answers for questions which persons should ask themselves about going into business on their own.

11. Do I have initiative?
12. What is my attitude toward people?
13. Am I a leader?
14. Am I a responsible person?
15. Can other people trust me?

Pretest - Posttest (Continued)

Advantages

16. Freedom to make your own decisions.
17. Ability to set your own salary.
18. Ability to set your own working hours.
19. Ability to choose your own workplace and kind of work.
20. Freedom to hire your own employees.

Disadvantages

21. Little job security.
22. Long working hours.
23. Fringe benefits are not provided.
24. A great deal of responsibility to your employees and customers.
25. A chance of losing your investment if your business fails.

Advantages of Sole Proprietorship

26. Easy to start and close the business.
27. The owner is the boss.
28. No sharing of profits.
29. Fewer government regulations.
30. Fewer taxes.

Disadvantages of Sole Proprietorship

31. Difficulty in raising start-up capital.
32. Lack of help in making decisions.
33. No one with whom to share the risk.
34. Business is ended at the owners death.

Pretest - Posttest (Continued)

Advantages of Partnership

35. Easy to start up.
36. Lower start-up costs than sole proprietorship.
37. Additional source of start-up money.
38. Variety of talents and skills of partners.
39. Easier to borrow money.

Disadvantages of Partnership

40. Each owner is responsible for the acts of the other partner.
 41. Sharing of profits.
 42. Partners lack of effort may cause more work for you.
 43. Limited expansion, if one partner differs in opinion.
 44. Complications on the death of one partner.
- 45-47. Possible answers for advantages of buying a going business.
1. You may buy the business at bargain price--owner may be anxious to sell.
 2. Save time and effort by establishing your inventory of needed stock and equipment.
 3. You may acquire customers who are already dealing with the company.
 4. The previous owners may be able to give the benefit of their experiences in the business and in the community.
 5. You may be buying a favorable public attitude toward the business.

Pretest - Posttest (Continued)

48-50. Possible answers for disadvantages of buying a going business.

1. You might pay too much because the former owner is not honest about the true worth of the business.
2. You may not make a good appraisal of the true value of the business.
3. The former owner may have had a bad reputation and previous customers may not wish to deal with you.
4. The location may be poor.
5. Former owner's choice of equipment and fixtures may have been poor or they may be in poor condition.

51. W

52. F

53. F

54. W

55. W

56. F

57. F

58. F

59. W

60. F

61. F

62. W

63. W

64. W

65. F

66. F

Pretest - Posttest (Continued)

67. F

68. F

69. W

70. W

71-75. Sources of Capital

Select from the following:

Personal savings

Commercial banks

Suppliers

Friends

Relatives

Small business administration

Commercial finance company

Saving and loan company

Factors for Choosing a Location

76. A. Is the area deteriorating?

77. B. How much competition will I have?

78. C. What other types of businesses are located in the area?

79. D. Is there a market for my business?

80. E. Will the business be easy to reach?

81. F. Will there be adequate parking?

82. G. Can potential buyers afford and/or need my product or services?

Pretest - Posttest (Continued)

83-92. Possible answers for 10 types of media which could be used in advertising and promoting a business of your own.

Business cards	Car cards
Direct mail	Handbills
Magazines	Newspaper
Outdoor signs	Radio
Television	Van sign
Sky writing	Word of mouth

93-97. Possible answers to the 5 functions of management and what the manager must actually do for each.

1. Manager must buy items needed for the business based on the wants of the customers. The manager must keep track of inventory, reorder when needed, select suppliers and be aware of new ideas and products.
2. Manager must price products or services, provide estimates, make mark-ups and be aware of competitive pricing.
3. Manager must decide who will be hired. Manager will decide what type of people will be hired, how much they will be paid, and where to locate potential employees.
4. Manager must decide how employees will be trained, who will train employees, how long they will be trained, and how much to pay them.
5. Manager must decide who will buy on credit, whether to honor credit cards, and how to collect from bad risk customers.

98. Intrastate Commerce - the operation of business within the state.

Interstate Commerce - the operation of business across state lines as well as within a state.

Pretest - Posttest (Continued)

99. Taxes

Federal, state, and local

100. Insurance needs

Fire, flood, tornado and casualty